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ZNY CCCCC ZZH
R 161526Z FEB 06
FM AMEMBASSY ATHENS
TO RUEHC/SECSTATE WASHDC 4425
INFO RUCNMUC/EU CANDIDATE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHTH/AMCONSUL THESSALONIKI 0036

C O N F I D E N T I A L SECTION 01 OF 03 ATHENS 000454

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E.O. 12958: DECL: 02/12/2016

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SUBJECT: GREECE'S LARGEST BALKAN INVESTOR: THE HELLENIC
TELECOMMUNICATIONS ORGANIZATION (OTE)

REF: ATHENS 365

11. (SBU) Summary. At a time when many Greeks tout their country's expanding economic influence in the Balkans, it is worthwhile trying to pin down exactly what this means. At the official level, the GoG has pledged USD 550 million for the Balkan Reconstruction Fund. As a subsequent message will detail, only a small percentage of this money has actually been disbursed. Instead, the real action is in the private sector, where a wide range of Greek firms have made major Balkan investments over the past 15 years. We have already reported on Hellenic Petroleum's \$220 million investment in the Macedonia's OKTA refinery (reftel), which has made HP the largest provider of petroleum products in Macedonia and Kosovo.

12. (SBU) This cable outlines the Balkan investments by the Hellenic Telecommunications Organization (OTE). At over USD 1.5 billion, these represent by far the largest such investment by any single Greek company and have made OTE either the largest, or second largest telecommunications provider in Serbia, Romania, Bulgaria, Macedonia, and (somewhat farther afield) Armenia. According to the man responsible for managing these investments, OTE's Michael Tsamaz, OTE probably paid too much for what it obtained, and

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went through a number of difficult years learning to manage its newfound international operations. Under the leadership of its current Chairman, however, OTE seems to have stepped up to the challenge of the rough and tumble world of Balkan business, becoming more nimble on its feet, and perhaps even helping it become more efficient in its home market. Unquestionably, it has reinforced OTE's position as a major force in Balkan telecommunications now and in the future.
End Summary.

First, A Bit on OTE

13. (U) OTE, established in 1949, was the monopoly provider of telecommunications services in Greece until the 1990s. It remains the largest fixed-line provider, with 84% of outgoing call minutes. OTE's cellular provider, COSMOTE, holds approximately 52% of the mobile phone market by the same measurement. In spite of holding 36% of OTE's shares, the Greek government maintains management control over the company. Until it made the overseas investments outlined below, starting in 1997, OTE was a purely domestic company.

Original Hopes of Fast Growth Lead Starry-Eyed OTE Astray

14. (SBU) According to Tsamaz OTE looked to the Balkans as a perfect way to break out of its purely domestic Greek operations base. The company found these countries' relatively fast growth rates irresistible, and assumed its management experience in the Greek market would translate seamlessly to operations elsewhere. Unfortunately, Tsamaz noted, OTE's complete lack of international experience at the time resulted in a host of managerial problems, which the firm has only slowly overcome. He highlighted the firm's initially poor management of its acquisitions, which resulted from a monopoly mindset combined with a total lack of international experience. "Engineers ran OTE and had no interest in what their customers wanted, nor in cost control." He said OTE originally went into Balkan states with the objective of "wiring an entire country", even if that meant years of losses. He also admitted that, in many cases, OTE had also paid far too much for what it had gotten; essentially, the firm been "taken to the cleaners" in a number of cases.

15. (C) Tsamaz credited OTE's turnaround in the region largely to the firm's realization that it could not continue operating as it was. Tsamaz himself was brought because of his extensive private sector expertise at firms such as Proctor and Gamble, Parker-Davis, Philip-Morris, combined with his telecom-sector background at Vodafone. He said OTE's management had given him a free hand in making things work, which he capitalized on by bringing in new country managers in each of its Balkan operations. He also renegotiated many of the original agreements OTE had made when it had bought its Balkan daughter firms.

16. (C) Speaking more generally about OTE's outlook, he said the firm had slowly begun to focus on the bottom line as a result of its gradual privatization over the past years, as well as the introduction of competitor firms (such as

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Vodafone) into the Greek market. This new attitude was given a boost by OTE's new General Manager, Panagis Vourloumis: "He's decisive, he covers your ass when you make a difficult decision, and he's willing to break eggs." The GoG's 2005 reform of OTE's personnel system, offering early buyouts to older employees and discontinuing lifetime employment contracts with new hires, was also important to furthering free-market principles at the company.

The Investments: A Country-by-Country Summary

17. (C) Tsamaz provided the following country-by-country overview:

Armenia

OTE's 1997 purchase of 90% of Armenia's Armentel for 120 million Euros was the Greek firm's first overseas investment. The Armenian government retains a 10% stake in the firm, which provides both fixed and mobile services. Tsamaz said OTE's original share purchase agreement obliged OTE to digitalize the entire country, while providing for no tariff increases. Tsamaz estimated it would have taken 40 years for OTE to have realized a profit under these conditions. Tsamaz renegotiated the agreement upon entering OTE so that, while Armentel remains committed to connecting all of Armenia's towns to the company's network, it will not have to provide digitalized services to all towns. Armentel will also be allowed tariff increases. Tsamaz said Armentel will begin to roll out new services based on profitability. Through its investment in Armentel, OTE is now Armenia's largest telecom provider.

Serbia

OTE purchased 20% of Telecom Serbia (TS), a provider of both fixed and mobile telephony, in 1997 for 312 million Euros. Tsamaz noted that OTE had arranged for the purchase in an

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alliance with an Italian company, which had bought another 29% of TS. According to the purchase agreement, the two firms obtained management control of TS. After the war in Serbia, however, the Italians sold their share of the firm to the Serbian government, which ended up with an 80% share of the company and removed OTE from management control. OTE legally disputed the loss of management control, and reached a compromise with the GoS in which OTE now has first right of refusal on the future sale of any part of the GoS's share of the firm. Tsamaz noted the war also hurt OTE's investment as TS lost its presence in Kosovo. At this point, OTE believes

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the Serbian telecom market has good growth prospects and is considering increasing its share in TS. OTE is Serbia's largest international investor in telecoms. (Note: Some readers will recall that OTE/Telecom Italia's purchase in 1997, supported politically by both governments, bailed Milosevic out of a jam and allowed him to buy another election. Over the long run, the investment has proved less disastrous for Greece/OTE than it was for Italy.)

Romania

OTE purchased 35% and management control of Rom Telecom in 1998 for USD 675 million. It purchased a further 19.1% of the firm in 2002 for \$231 million, further cementing its management position in the firm. OTE's cellphone arm, COSMOTE, has purchased 70% of one of Romania's three mobile providers, COSMOROM, along with Rom Telecom. Tsamaz said OTE's most important reform at the company was reducing staff from 54,000 at the time of purchase to 13,000 now. It has also embarked on a more rational, profit-oriented expansion of the company's network. Combined with improved marketing, and renegotiated contracts with suppliers, Rom Telecom had emerged from a difficult period as a strong company, and is now on the way to being listed, probably in London. Through its Rom Telecom investment, OTE is Romania's largest telecoms provider.

Bulgaria

COSMOTE purchased one of Bulgaria's three mobile licenses along with associated infrastructure in 2001 for 250 million

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Euro. It is now Bulgaria's second largest mobile phone provider.

Macedonia

COSMOTE purchased one of Macedonia's two mobile phone licenses in 2001 for 120 million Euro. The other license, Tsamaz said, was held by Matav, the Hungarian branch of

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Deutsche Telecom, which also held Macedonia's fixed line company. COSMOTE is the smaller of the two providers.

Albania

Tsamaz said COSMOTE had purchased one of the two mobile

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licenses in Albania, although he did not provide details.
This made COSMOTE Albania's largest mobile phone provider.

Ukraine/Jordan

Tsamaz did not go into details, but said OTE had decided it

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could never make a profit in its Jordanian and Ukrainian
operations, and had written off both investments.

Comment

18. (C) Perhaps the most interesting aspect of OTE's work in the Balkans is how this has pushed the formerly staid, statist company to learn new, more efficient ways of doing things. Tsamaz made it clear that, when he came to the firm, it was seriously thinking of selling its stake in a number of Balkan operations. Indeed, it was ill-prepared for the intense competition represented by the entrance of other European companies into the Balkans. Instead, OTE successfully applied free-market principles and is now finally making money. It is worth noting that Tsamaz credited his introduction of "American style" management techniques he had learned through his years at U.S. firms as an essential element in turning around OTE's Balkan operations.

19. (C) OTE's Balkan experiences generate a number of broader questions, however, such as whether the firm will begin to apply them to its major market, Greece. According to Tsamaz, this is slowly starting to happen. Even more broadly, will OTE begin to follow the model of U.S. firms, which work with the USG to promote transparent business practices internationally as a way to bolster their position in foreign markets? If so, this might lead to the GoG becoming a more useful regional partner in our efforts to promote such practices in the Balkan region.

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